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SIPDIS  
AMEMB BRUSSELS FOR USEU

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TAGS: MOPS NATO PARM PREL UP  
SUBJECT: FINDING A WAY FORWARD ON UKRAINE NATO PFP TRUST  
FUND PROJECT

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Classified By: EUR Deputy Assistant Secretary Robert Boehme, Acting  
For Reasons 1.4 (b) and (d)

¶11. (U) This is an action request for Embassy Kyiv and  
USNATO, please see paragraph 10.

¶12. (C) Summary: Despite months of senior-level demarches, the Government of Ukraine (GoU) has not agreed to resume small arms/light weapons (SA/LW) destruction under the NATO-Partnership for Peace (PfP) demilitarization project. Instead, the GoU has proposed a plan that disables SA/LW in a way that appears to be easily reversible and inconsistent with U.S., UK, and Canadian standards, then selling them for profit (reftel G). The GoU also requested to renegotiate the agreement so NATO would pay for a larger percentage of the munitions destruction. The U.S. does not accept the GoU's proposal as drafted. In the absence of a shift in the GoU position, the U.S. with great regret would begin to shut down this project. As part of this process, we will continue to support allowing the remaining funds in the account to be expended for munitions destruction under the current cost sharing agreement, allowing for the destruction of an estimated seven million tons of munitions. As the project would still be running, if/if NATO and Ukraine come to an agreement on either destroying or demilitarizing the SA/LW destruction before the project is completely shut down there is the possibility it could be restarted. Shutting down a NATO Trust Fund project with Ukraine is a step that the United States would take with great reluctance given the strategic importance, particularly at this time, of safeguarding and reinforcing Ukraine's trajectory toward NATO and Europe. By failing to meet its commitments on SA/LW destruction and proposing a flawed alternative, Ukraine is reinforcing doubts among many Allies about its commitment to its obligations and reform efforts. While holding Ukraine to its commitments and NATO standards, the U.S. goal is therefore to reach an agreement with Ukraine as soon as possible. End Summary.

¶13. (C) Background: The NATO-Ukraine Trust Fund demilitarization project to destroy 1,000 Man-portable Air Defense System (MANPADS) missiles, 15,000 tons of munitions and 400,000 SA/LW in Ukraine is the first phase of a planned 12-year project to destroy 133,000 tons of munitions and 1.5 million SA/LW. The project, which was initiated in January 2006 at Ukraine's request, is led by the United States with funds provided by 17 other nations and the European Union.

The project's aims and the GoU's obligations were laid out in an Implementing Agreement signed in November 2005. The 1,000 MANPADS were successfully destroyed by September 2006. The SA/LW element started in January 2007 with the goal of destroying 185,000 weapons in 2007 and the balance by the end of 2008. Less than 135,000 SA/LW have been destroyed because the GoU has not released the remainder of the weapons. We understand the Ministry of Economy has pushed hard to keep the arms available for commercial sale.

¶4. (C) Since mid-2007 efforts at all levels to overcome the impasse have been unsuccessful (reftels). The U.S. has offered to extend and cover the increased cost of having Phase 1 of the project continue for another year, agreed to the GoU's proposed revision of the munitions destruction list to include more larger caliber munitions (a top GoU priority), and indicated our willingness to discuss including more larger caliber munitions in Phase 2 of the project. On November 10, we informed the GoU that if it does not commit by December 1 to fulfill its SA/LW destruction obligations under phase one of the project, we would have to begin to shut down the entire project. Over the last three weeks, Embassy Kyiv has engaged Foreign Minister Ohryzko, Economics Minister Danylyshyn, Deputy Foreign Minister Khandogiy, Deputy Defense Minister Ivashchenko, and Deputy Economics Minister Boitsun. In addition, at the November 12-13 NATO-Ukraine High Level Consultations, Secretary of Defense Gates also raised this issue with Defense Minister Yekhanurov who indicated that the Ministry of Economy was to blame for the impasse. Initially, we understood that a GoU internal agreement including the Ministry of Economy had been reached to resume destruction. However, at a December 3 meeting chaired by First Deputy Prime Minister Turchinov, the Ministry of Economy reneged on its agreement. As reported in Ref G, the Ministry of Economy representative termed the MFA/MoD push to allow destruction "criminal," given the current economic/financial crisis and the fact that, in the view of the Ministry of Economy, the weapons retain value. Turchinov invoked "Force Majeure" during the meeting, citing the expanding domestic economic crisis, which includes \$2.4 billion in gas arrears, a Russian threat to cut gas in January unless the Ukrainians pay, a steadily and steeply falling currency, and the lack of funds to meet SA/LW destruction commitments.

¶5. (C) On December 6, GoU Deputy Foreign Minister (DFM) Horin and Deputy Defense Minister (DDM) Ivashchenko told Ambassador Taylor that the only way forward for the GoU was a plan that accomplished the SA/LW destruction goal, but also provided GoU with income. The four point plan proposed by the GoU was to: 1. convert the remaining 267,000 SA/LW from Phase 1 to non-operational mounted displays and sell them for profit; 2. the GOU would pay 100% of conversion costs for all remaining 267,000 SA/LW, NATO monitors could observe and certify the process and the converted weapons would be sold on the open market with MoI certificates of inoperability; 3. the remaining funds allocated for SA/LW destruction could be applied to munitions destruction; and 4. the GOU would also want to "modify" the cost share for munitions destruction - the 25/75 split between NATO and GOU was not included in the agreement text according to Ivashchenko; the subsidiary contracts for destruction could be amended/changed.

¶6. (C), The U.S. cannot support Ukraine's proposal as drafted for two reasons. First, the Department, consulting with destruction experts, has carefully reviewed Ukraine's proposal to demilitarize the weapons and has concluded that it poses serious nonproliferation risks. The proposed method of demilitarization does not appear to meet acceptable U.S., UK, or Canadian standards of inoperability (Ref I), which call for specific parts of weapons to be cut, removed, drilled, and/or welded. In this context, the U.S. is concerned that alternative methods of demilitarizing the weapons, such as replacing a firing pin or altering the barrel of a weapon, would be too easy to reverse and result in weapons that pose a proliferation risk and are capable of harming or killing people. For example, the Makarov pistol shown to the Ambassador had the firing pin mechanism removed,

the barrel slotted along its length, and portions of its rear section removed. We believe those items could be replaced for approximately USD 60 with parts available from the internet.

¶7. (C) While Washington is sympathetic to Ukraine's economic difficulties, the proposal offered does not provide sufficient guarantee that the SA/LW cannot be returned to operability, which is the goal of this aspect of the project.

Ukraine's proposed solution presents a proliferation risk, which is not acceptable to the U.S. Moreover, U.S. analysis indicates it would cost approximately ten Euros to demilitarize a pistol and 50 Euros to demilitarize a machine gun as compared to the one to two Euros it costs to destroy each weapon. We also estimate that approximately 1000 weapons would have to be demilitarized a day to complete the process by the end of 2009, a very ambitious goal that will be difficult to achieve. As noted in Ref I, there are acceptable processes for demilitarizing weapons, which would still allow them to be sold for display, but not present a proliferation risk. The U.S. is fully prepared to discuss these options with the GoU. The U.S. also has concerns about Ukraine's assessment that demilitarizing the weapons could yield a profit from their sale. Specifically, we are skeptical about how robust a market exists for the Ukrainian demilitarized weapons, as well as whether the GoU option is the most cost effective solution given cost estimates. The U.S. notes that implementation of the project would help Ukraine save money over the long term by not having to maintain the storage sites for these weapons and munitions.

¶8. (C) Second, we can't agree to the GoU's proposal to modify the percentage of destruction costs for Ukraine and NATO. In October, the U.S. and NATO made the December 1 deadline clear to Ukrainian officials. Even if all contributors agreed, renegotiating a cost-sharing agreement on a new cost structure in the next few weeks is not possible. Moreover, Ukraine's proposal may be perceived by some NATO states as trying to hold the project for ransom by refusing to meet its commitments or as a way to secure greater contributions from donors.

¶9. (C) The U.S. cannot accept the GoU proposal as drafted; unless the GoU agrees to resume destruction at once, we have no choice but to begin to take the necessary steps that will lead to the shut down of this project. Even though we have been put into the regrettable position of taking steps to shut down the project, we will expend the remaining funds in the account for munitions destruction, but only at the agreed 25/75 NATO and GoU cost sharing rate. The U.S. also is prepared to discuss with GoU officials finding a process that is mutually acceptable (including to any remaining donors) for fully demilitarizing the SA/LW so they cannot be used again and no longer present a proliferation risk. If a method of demilitarization is agreed upon before the remaining funds are expended in early 2009, we could consider revisiting the decision to shut down the project. We cannot guarantee that the 17 other donors and the EU will keep their funding in the project during this shut down phase, or be willing to support the project in the future if it is resumed. Given the scale of the project, the U.S. is not in a position to be the sole funding source. The best way to ensure that we achieve our shared objectives of destroying the munitions and rendering the SA/LW inoperable is to resume implementation of the project as previously agreed.

¶10. (C) Objectives/Action Request:

For USNATO and USEU: Our recommendation to begin shutting down the PfP Trust Fund project should be passed to donors, including the EU, NAMSA and appropriate NATO officials. The Department requests that posts pursue the following objectives:

-- Inform NAMSA that the United States cannot accept the GoU proposal as drafted and therefore regrettably must begin to take the necessary steps to shut down this project. In the context of taking steps to begin to close down the project,

the U.S. does support allowing NAMSA to expend the funds remaining in the Trust Fund account to destroy munitions with Ukraine paying 75% of the costs and NATO paying 25%. Moreover, if a method of demilitarization is agreed upon with Ukraine before the remaining funds are expended in early 2009, the United States would revisit the decision to shut down the project.

-- Inform the contributing Allies and Partners of the U.S.'s extensive senior-level efforts to resume the destruction project with the GoU. Note the U.S. takes this action with deep regret, but has no choice given Ukraine's failure to meet its commitments. The U.S. does support the use of the remaining funds to destroy munitions in Ukraine to demonstrate that we are committed to helping Ukraine get rid of these dangerous weapons.

-- Emphasize the U.S. would be willing to accept Ukraine's requested revised munitions list (which includes a greater portion of larger caliber munitions for destruction), if the GOU reconfirmed its original commitment to destroy 400,000 SA/LW as part of Phase I of the project.

-- Convey U.S. willingness to discuss with Ukrainian officials finding a mutually acceptable process for demilitarizing the SA/LW so they cannot be used again. If a method of demilitarization is agreed upon before the remaining funds are expended, and if NAMSA were to have found that such an approach would be possible, we would revisit the decision to shut down the project.

-- Inform the contributing Allies and Partners that our initial estimate is that current funding, which includes all donor contributions, would last several months and eliminate approximately seven million tons of munitions.

-- In addition, inform the contributing Allies and Partners that the U.S. supports allowing Ukraine to keep the equipment purchased for this project at no cost to Ukraine.

-- Encourage all donors not to withdraw their funds while we continue to discuss the SA/LW issue with Ukraine and so the maximum amount of munitions can be destroyed.

FOR KYIV: Drawing from background and reftels as appropriate, the Department requests that Ambassador Taylor approach the GoU at the appropriate level and pursue the following objectives:

-- Inform Ukraine that the United States is deeply concerned that the NATO-PfP Trust Fund Project to Destroy Munitions, SA/LW and MANPADS in Ukraine remains at a standstill.

-- Reiterate that the U.S. agreed to Ukraine's proposal to extend Phase I an additional year and accepted the GOU's revised munitions list, on the condition that the GOU reconfirmed its original commitment.

-- Inform Ukraine the U.S. has carefully reviewed its proposed plan, and finds it does not, as written, constitute a commitment to resume SA/LW destruction.

-- The proposal to make the SA/LW inoperable does not appear to meet U.S., UK, or Canadian standards.

-- Emphasize that U.S. and NAMSA experts believe that any of the items demilitarized according to Ukraine's proposal could be made operational again, and therefore present a proliferation risk and potential use for lethal purposes which is not acceptable to the U.S.

-- Point out that Ukraine's proposal does not appear to be an effective way to raise money or to encourage donors to contribute more money. (As noted in paragraph 7)

-- Our analysis indicates that destruction is cheaper than demilitarization, and prospects for recouping this difference, and making a profit, through the sales of demilitarized weapons for display are uncertain at best.

Implementation of the Trust Fund project will help Ukraine save money over the long term—for example; Ukraine would not need to maintain the storage sites for these weapons and munitions.

-- The project has already been at a standstill for the past year because of Ukraine's inability to deliver weapons for destruction. The project, as agreed between the U.S. and Ukraine, remains scheduled to be completed by the end of December. As Ukraine is not prepared to meet its commitments, the United States can only extend the timeframe of the project in a manner that would authorize steps to start to shut down the project and expend remaining funds.

-- Inform the GOU that after careful review, the U.S. cannot accept the GOU proposal as drafted. With great regret, we will begin to take the necessary steps to shut down the project.

-- While we will take steps to start to shut down the project, we will continue to allow the remaining funds in the account to be expended for munitions destruction, but only at the agreed 25/75 NATO and GOU cost sharing rate.

-- Our initial estimate is that current funding would provide eliminate approximately seven million tons of munitions.

-- The U.S. will allow Ukraine to keep the equipment purchased for this project at no cost to Ukraine.

-- The U.S. is prepared to discuss finding a process that is a mutually acceptable (including to remaining donors) for demilitarizing the SA/LW so it cannot be used again for lethal purposes.

-- Inform Ukraine that if we can agree upon a method of demilitarization before the remaining funds are expended in early 2009, the U.S. will revisit the decision to shut down the project.

-- Emphasize that we cannot guarantee that the 17 other donors and the EU will keep their funding in the project during this shutting down process or be willing to support the project in the future if it is resumed. The best way to ensure that we achieve our shared objectives of destroying the munitions and rendering the SA/LW inoperable is to resume implementation of the project as previously agreed.

-- Stress that Ukraine's delays in proceeding with destruction of the weapons, combined with its speculative and nonproliferation-deficient proposal for demilitarizing the weapons, can only harm Ukraine's efforts to build a closer relationship with NATO.

¶11. (SBU) For further information, please contact PM/WRA: Katherine Baker, (202) 663-0104, and Dave Diaz, (202)

663-0102 and EUR/PRA Matt Hardiman (202) 647-8892.

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